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SUBJECT: DIVIDING UP THE SPOILS: GAS REVENUE DEBATE  
INTENSIFIES

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Summary  
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1. (SBU) With the signature of gas accords October 28, the GOB estimates that hydrocarbons production will generate USD 2 billion next year, with USD 1.3 billion going to the government as a result of new production contracts (septel), and USD 4 billion within four years, with USD 2.4 billion destined to the state. This increased revenue is certain to generate conflict between universities, municipalities, regional governments, and the central government, who will each demand a piece of the pie. GOB promises to provide universal, free healthcare and other benefits with the money have raised public expectations. It remains to be seen if they will be fulfilled. End summary.

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Gas Revenue on the Rise  
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2. (SBU) According to YPFB (Bolivia's state-owned oil company) President Juan Carlos Ortiz, hydrocarbons production in the next year will generate USD 2 billion. Based on the new hydrocarbons exploration and production contracts (septel), USD 1.3 billion of this will go to the state in taxes and royalties. Within four years, taking into account increased production and export to Argentina, the sector is estimated to generate USD 4 billion annually, with USD 2.4 billion going to the state (based upon current prices, which could decrease if oil prices decline). The state revenue is made up of general taxes of around 10 percent, royalties of roughly 18 percent, a direct hydrocarbons tax (IDH) of around 32 percent, and a tax on the large fields of San Alberto, San Antonio, Margarita, and Itau of 32 percent for use by YPFB. Tax and royalty rates vary by company contract, but range from 50 percent to 82 percent, according to various sources.

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Competing Demands for Resources  
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¶3. (SBU) Bolivian law requires that all taxes be shared by the national government with regional governments, universities, and municipalities. Regional governments in gas producing areas currently receive 12 percent of royalties and part of the IDH payments. Due to the fact that regional governments have money that they are not spending and the national treasury has a deficit, the MAS administration is proposing changes at the Constituent Assembly to the way the IDH is divvied up to give the national government a larger take. A move to decrease their revenue will surely anger regional governments and further divide the eastern producing regions and the central government. Eighty-nine percent of Bolivia's natural gas is produced in Tarija and Santa Cruz, home to the GOB's main opposition. These two regions will be particularly disgruntled if they do not get "their fair share" of the revenue, and it is instead spent to alleviate poverty in the western highlands. The GOB intends for the revenue from the additional 32 percent tax that has been placed on the large fields to go directly to YPFB -- an estimated USD 200 to 300 million dollars annually. The regions, universities, and municipalities will likely protest this assignment of resources and demand their share in accordance with Bolivian tax law.

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Investing in Human Capital ...  
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¶4. (SBU) Meanwhile, the government has already announced in the press that hydrocarbons revenue will be used to provide universal, free healthcare, bonus payments to schoolchildren, housing, employment, and other benefits. The World Health Organization has reportedly agreed to donate USD 2 million in support of the universal healthcare program. The Armed Forces will deliver USD 25 to parents of enrolled primary school children in November to promote school attendance. Vice Minister of Tourism Dr. Jose Cox told Emboff on October 30 there would be "plenty of money for tourism promotion now that the GOB had signed the hydrocarbons contracts."

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Comment: And Reaping the Political Benefit?  
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¶5. (SBU) The division of hydrocarbons revenue is certain to generate heated conflict between the central and regional governments. GOB pledges to provide various benefits with the hydrocarbons revenue have raised public expectations. Members of the government and the public are reacting as if they have won the lottery and are already dreaming of one million ways to spend the money. The resources give the GOB an important opportunity to improve the lives of Bolivia's majority poor, and reap significant political benefits as well. The challenge, as always, is in implementation, and additional demands are growing from every direction. There is already major pressure from MAS insiders for the government to create jobs for MAS loyalists in ministries. The government's challenge will be to manage patronage demands effectively while simultaneously providing basic improvements in the living standards of the Bolivian people, South America's poorest. End comment.  
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